

THE DEBT COLLECTION IMPROVEMENT ACT OF 1996: HOW WELL IS IT WORKING?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND
INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE DEBT COLLECTION IMPROVEMENT ACT OF 1996: HOW WELL IS IT WORKING?

WEDNESDAY, DECEMBER 5, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL
MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Ose, and Schakowsky.

Staff present: Henry Wray, senior counsel; Bonnie Heald, deputy staff director and director of communications; Mark Johnson, clerk; Jim Holmes, intern; David McMillen, minority professional staff member; Jean Gosa, minority clerk; and Ellen Rayner, minority chief clerk.

Mr. HORN. A quorum being present, the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

Today's hearing is a continuation of this subcommittee's October 10th hearing concerning implementation of the Debt Collection Improvement Act of 1996. On October 10th, the Deputy Secretaries of the Departments of Education, Health and Human Services and Veterans Affairs reported on their agencies' efforts to comply with the law and to collect more of the delinquent debts owed to American taxpayers. Deputy Secretary of Agriculture, James Moseley, was scheduled to testify at that hearing but was unable to attend. The primary purpose of today's hearing is to receive Mr. Moseley's testimony on the Agriculture Department's debt collection performance. The Agriculture Department's compliance with this law is especially important as it is the Federal Government's largest direct lending agency. The Department holds over one-third of all Federal non-tax debt.

The subcommittee will also hear today from the General Accounting Office which has audited debt collection efforts at several of the Department's components and from the Treasury Department Financial Management Service which has government-wide responsibilities under the Debt Collection Improvement Act. GAO's findings, as well as our subcommittee's oversight work, demonstrate that the Agriculture Department has been severely deficient in implementing the Debt Collection Improvement Act's key requirements and in taking advantage of the act's other tools.

This subcommittee recently wrote to Deputy Secretary Moseley posing a series of questions about the Department's debt collection practices. In his response, Mr. Moseley assured us that the Department is moving forward with a number of actions to improve its compliance with the law. Today, we will examine the status of these efforts and we will also explore what barriers to improvement may exist at the Department and how they can be overcome.

[The prepared statement of Hon. Stephen Horn follows:]

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Opening Statement
Chairman Stephen Horn,
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
December 5, 2001

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Today's hearing is a continuation of the subcommittee's October 10 hearing concerning implementation of the Debt Collection Improvement Act of 1996. On October 10, the deputy secretaries of the Departments of Education, Health and Human Services, and Veterans Affairs reported on their agencies' efforts to comply with the law and collect more of the delinquent debts that are owed to American taxpayers.

Deputy Secretary of Agriculture James Moseley was scheduled to testify at that hearing but was unable to attend. The primary purpose of today's hearing is to receive Mr. Moseley's testimony on the Agriculture Department's debt-collection performance. The Agriculture Department's compliance with this law is especially important as it is the federal government's largest direct lending agency. The department holds over one-third of all federal non-tax debt.

The subcommittee will also hear today from the General Accounting Office, which has audited debt-collection efforts at several of the department's components, and from the Treasury Department's Financial Management Service, which has government-wide responsibilities under the Debt Collection Improvement Act.

The GAO's findings, as well as our subcommittee's oversight work, demonstrate that the Agriculture Department has been severely deficient in implementing the Debt Collection Improvement Act's key requirements and in taking advantage of the law's other tools. The subcommittee recently wrote to Deputy Secretary Moseley, posing a series of questions about the department's debt-collection practices. In his response, Mr. Moseley assured us that the department is moving forward with a number of actions to improve its compliance with the law.

Today, we will examine the status of those efforts. We will also explore what barriers to improvement may exist at the department and how they can be overcome. I welcome Mr. Moseley and our other witnesses today, and look forward to their testimony.

Mr. HORN. I welcome Mr. Moseley and the other witnesses today. I look forward to their testimony. Since this is an investigative committee, we will ask all the members at the table, including assistants, to rise and raise your right hands and take the oath.

[Witnesses sworn.]

Mr. HORN. We will start with the testimony of Mr. Moseley, Deputy Secretary, Department of Agriculture. The way it works, we have your written statement and we don't need you to read it but do summarize and give us whatever you like, whether it is in the testimony or not. It will be put into the record at this time. Why, then, don't we proceed.

**STATEMENT OF JAMES R. MOSELEY, DEPUTY SECRETARY,
DEPARTMENT OF AGRICULTURE**

Mr. MOSELEY. Thank you, Mr. Chairman.

I want to thank you for the opportunity to discuss the progress the Department of Agriculture has made in implementing the Debt Collection Improvement Act of 1996. I want to apologize, Mr. Chairman, for not being able to attend the first hearing. As you know, we had a reason of homeland security that took priority immediately preceding that hearing and I was unable to attend. I do sincerely appreciate your indulgence.

With me today are Chris Burgess and Caroline Cooksey and they will be helping as we answer some of the questions I know you are going to have.

First, I want to give a brief summary of the current status of our Debt Collection Program and then I would like to focus on some positives I have uncovered in my research on this issue, and finally, some areas I see as deficiencies in our progress to meet the intent of the act.

Every day the Department of Agriculture's programs serve those needing assistance using a diverse array of programs. Many of these programs include credit initiatives that finance water and waste management systems, housing, electric, telephone utilities, rural businesses, farm ownership and operation loans and emergency disaster assistance and relief. These are all programs that Congress has agreed are important for specific sectors of our economy.

This extensive list of lending programs, however, makes the Department of Agriculture the Federal Government's single largest provider of direct credit. Our \$103 billion in receivables as of September 10, 2001 represents, as you indicated, 36 percent of the non-taxed debt owed to the Federal Government. Clearly that is a large loan portfolio.

The Department of Agriculture, in the past, has used many available tools to collect delinquent debt and we have had some success. The Department has reduced our delinquent receivables by about 29 percent to a current \$6.2 billion from \$8.7 billion in 1996. The good news is that this amount equates to a delinquency rate of about 6 percent compared to the government-wide average of about 19 percent. It is really not too bad by business standards but any unpaid loan is a problem for both the creditor and the debtor.

However, of the \$6.2 billion, only 25 percent or \$1.6 billion, is eligible for collection through Debt Collection Improvement Act tools.

The remainder, about \$4.6 billion, I am told, is precluded from these tools due to statutory or administrative requirements such as bankruptcy, litigation or debt owed by foreign or sovereign entities. In fact, of the \$4.6 billion, 74 percent or \$3.4 billion is foreign debt which requires other methods of collection beyond the Department's current capabilities. That leaves us with the relatively small amount of our total debt that we can collect via the Debt Collection Act. However, \$1.6 billion isn't a small amount of money and those that borrowed that money need, unless true hardship strikes them, to meet their obligation to pay it back.

As a farmer, I watched with great interest and some reserve during the early 1990's when efforts were underway to collect some of the money loaned to farmers during the deep 1980's agricultural recession. I was somewhat dismayed when some individuals, a decade later, were not expected to pay it back despite the Federal Government's best efforts to collect. We paid our Farmers Home Administration loan in 1975 from when we started farming in 1970, not because we were well off and could but because it was a contract that we had agreed to. Later in 1993, I bought the farm next door at a sheriff's auction primarily because the debtor farmer made no effort for 7 years to make a single payment and the Government finally cleared all the legal hurdles to liquidate and to collect. So I am understanding of the obligation of the debtor to pay and I respect the right of the creditor to collect. I also continue to be perplexed over the inability of government to sometimes collect debts. As a taxpayer, I expect performance on the obligation made at the time an individual signs a note pledging their commitment to pay.

During fiscal 2001, the Department of Agriculture agencies collected \$583 million using internal collection tools. This was primarily liquidation of remaining assets used to secure the loan. Another \$287 million was collected using Treasury administrative offset programs and other debt collection improvement tools. I have been told annual Department of Agriculture collections of delinquent debt using Debt Collection Improvement Act tools have more than quadrupled since 1996.

As you well know, the Treasury Offset Program is a centralized debt collection program offered through Treasury to offset delinquent debts against Federal payments to borrowers. The staff at USDA has told me that the Treasury Offset Program has become an excellent collection tool for the Department of Agriculture. Our referrals to that program for fiscal year 2001 were 97 percent.

In addition, the Department of Agriculture's National Finance Center worked with Treasury in the development of the government-wide, centralized salary offset process for collecting delinquent employee debt for Federal agencies. The National Finance Center is serving as the first payroll office in the Federal Government to interface with the Treasury Salary Offset Agency process applications. The first matching process was completed in September and resulted in an October 2001 completion of the first salary offset.

This brings us to the cross-servicing mechanism which is the primary process whereby Federal agencies refer delinquent debts to Treasury for a series of appropriate collection actions after all other

collection tools have been exhausted. The Department of Agriculture began referring debts to the Treasury Cross Servicing Program in July 1999. We continue to implement this program and I personally pledge to make substantial progress and improvements to the program as various Department of Agriculture agency issues are resolved over the next year.

Now, for some of the problems that I think still remain. Treasury determined that consumer food stamp debts collected by State agencies were exempt from mandatory cross-servicing based on Treasury's cross-servicing regulations. However, we do send all eligible retailer debts to cross-servicing. The Farm Service Agency refers the vast majority of eligible debts on an annual basis which corresponds with the loan cycle on farm operating loans, their current system capability and the Internal Revenue Service tax refund cycle. The Farm Service Agency has committed to me to improve its systems in order to move aggressively toward automatic quarterly referrals. I have also had discussions with them about once a loan is in default and all statutory grace periods expire, they will accelerate their referrals to a monthly cycle. That seems possible as we improve our information technology systems to better track these loans.

The main issue is to get these nonperforming loans to Treasury as soon as possible. Also problematic, due to statute of limitation issues that had to be resolved between Treasury and the Farm Service Agency, were experiencing a backlog of cross-servicing referrals that occurred in fiscal year 2001. These issues have been resolved and the eligible backlog is scheduled for referral in the next two quarters. I will follow-up with them to monitor this progress and will report that to you, Mr. Chairman and the committee.

Unfortunately, another significant portion of debt that has not been referred to cross-servicing belongs to Rural Development. Rural Development's current referral rate is low, about 7 percent at the end of 2001 because the agency did not refer debt while a final determination was being made by Treasury on Rural Development's request for an exemption from mandatory cross-servicing so that Rural Development could perform in-house servicing. In May 2001, the request was denied. Subsequently, Rural Development developed a debt referral schedule which they now operate under.

The history and the nature of this issue isn't what concerns me now. It is the past. The issue is what we do about it now and what performance we can now expect. My discussions with the agency are that they intend to have this fully functional in 2002. By the end of fiscal year 2002, close to 60 percent of eligible debt should be referred to Treasury cross-servicing. The referral timeline is based on Rural Development performing a detailed account review to ensure that all requirements for transferring accounts to Treasury are met, including the assurance that the debts are legally enforceable and not under workable servicing agreements.

In summary, this statement reflects the progress the Department of Agriculture has made in collecting delinquencies. It also represents some difficulties and represents our pledge to you, Mr. Chairman, and to the subcommittee, that this issue commands the highest priority and attention of the Department of Agriculture. I can only pledge to you the commitment of myself as CEO and Ted

McPherson who is our new CFO, to keep the issue of debt collection concern before the right people within the Department to assure that we do it well and we do it right.

I just came from the other side as a private citizen and expect performance on any obligations to the Federal Government. The hearing you have called has certainly focused Mr. McPherson and myself to learn about the responsibilities that we now have and to learn about the perhaps too longstanding challenges we have acquired at USDA with this issue. We both pledge to commit to get it right.

Thank you for the little bit of extra time you allowed me in presenting my statement. But it was an expression of commitment and also, again, your forbearance in rescheduling this hearing.

Thank you.

[The prepared statement of Mr. Moseley follows:]

**STATEMENT OF
JAMES R. MOSELEY
DEPUTY SECRETARY
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM**

**TESTIMONY ON
DEBT COLLECTION IMPROVEMENT ACT OF 1996**

December 05, 2001

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to discuss the progress that the Department of Agriculture has made in implementing the Debt Collection Improvement Act (DCIA) of 1996. First, I want to give the Subcommittee a brief profile of the components that make up our credit program. Then, I would like to focus on the actions we are taking to capitalize on current successes and the plans we are implementing to improve our performance where we face challenges.

Every day, the Department of Agriculture's (USDA) programs serve those needing food assistance, farmers, ranchers, and rural communities using a diverse array of programs. Many of these include credit initiatives that finance:

- water and waste management systems,
- decent, affordable housing,
- electric and telephone utilities,
- rural businesses,
- farm ownership and operations, and
- emergency disaster assistance and relief.

This extensive list of lending programs makes USDA the Federal government's single largest provider of direct credit. As of September 30, 2001, our \$103.2 billion in receivables (approximately 1.4 million accounts) represents 36 percent of the \$290 billion in non-tax debt owed to the Federal government.

USDA has long used many available tools to collect delinquent debt. Our September 30, 2001, delinquent receivables total \$6.2 billion. This equates to an average delinquency rate of about six percent, compared to the Government-wide average of about 19 percent (or around 27 percent when USDA is excluded from the computation). Of this \$6.2 billion, only \$1.6 billion is considered collectible through Treasury collection tools. About \$4.6 billion dollars is precluded from these tools due to statutory or administrative requirements. These debts may involve bankruptcies and litigation, or may be owed by foreign or sovereign entities.

During FY 2001, USDA agencies, through their own internal collection tools, collected \$583 million of delinquent debt. In FY 2001, another \$287 million in delinquent debt was collected using the Department of Treasury Administrative Offset Program and other DCIA collection tools. USDA continues to expand the use of DCIA collection tools. Collections of delinquent USDA debt using DCIA tools have more than quadrupled (from \$63.2 million to \$287 million) since 1996. In addition, our current \$6.2 billion delinquent receivables represent a decrease of about 29 percent from the \$8.8 billion in delinquencies reported for FY 1996.

While we have used several tools to increase the collection of delinquencies, we are continuing to work with Treasury, the Office of Management and Budget, and the Federal Credit Policy Working Group to make sure we are fully exercising all of our debt-collection tools.

Treasury's Administrative Offset Program

The Treasury Offset Program (TOP) is a centralized debt collection program operated through Treasury's regional finance centers. TOP is designed to assist agencies in the collection of delinquent debt owed the Federal government through the match of delinquent debtor files against payment files. When a match occurs, the payment is intercepted and the debt is offset up to the amount of the debt. During FY 2001, USDA referred approximately 97 percent of its eligible delinquencies to the Treasury Offset Program (TOP). Some of our agencies do not refer debt directly to TOP; they refer the debt to the Treasury cross-servicing program, which in turn refers to TOP as appropriate. We believe that TOP has been an excellent collection tool for USDA.

USDA's National Finance Center (NFC) is working closely with Treasury in the development of system requirements to implement the centralized government-wide salary offset process for collecting delinquent employee debt for Federal agencies. This Salary Offset Agency Process provides Treasury an automated interface to notify NFC of past due debts by all Federal employees payrolled through NFC. Upon notification, NFC will make deductions from the employee's salary payments to offset the outstanding debt and forward the offset proceeds to Treasury for credit to the corresponding agency. The Salary Offset Agency Process application, placed into production during August, is serving as the pilot application, with NFC serving as the first payroll office in the Federal government to interface with Treasury's new application. System testing between Treasury and NFC is complete. The first matching process was completed in September and resulted in an October completion date for the first salary offset.

Cross-Servicing of Delinquent Debt

Cross-Servicing is the process whereby Federal agencies refer debts over 180 days delinquent to Treasury or another Debt Collection Center for purposes of collection. USDA began referring to the Treasury Cross-Servicing Program in July 1999, and as we continue to implement the program, we plan to make substantial progress, as various USDA agency issues are resolved over the next year.

Each USDA agency has targets for referral. The Forest Service entered into an agreement with Treasury to provide cross-servicing of delinquent debts that are over 60 days old. Treasury's Financial Management Service (FMS), determined that Food Stamp debts collected by State agencies were exempt from mandatory cross-servicing based on FMS's cross-servicing regulations. The Food and Nutrition Service (FNS) coordinates Food Stamp State agency participation in Treasury's programs. FNS does send all eligible retailer debts to cross-servicing. The Farm Service Agency (FSA) refers most of its eligible debts to Treasury's cross servicing program. Further, FSA has made significant progress towards improving both its bad debt collection systems and its rate of delinquency, as evidenced by a recent GAO report that removed the Farm Loan Program from GAO's High Risk List. FSA will continue to improve its systems in order to automate quarterly referrals, which is currently a manual process.

A significant portion of the debt that has not been referred to cross-servicing belongs to Rural Development (RD). RD's current referral rate is low because the agency did not submit debts to cross-servicing while a final determination was being made by Treasury on RD's request for an exemption from mandatory cross-servicing in order to perform in-house servicing. In May 2001, Treasury notified the agency that the request was denied; consequently RD developed a debt referral schedule. By the end of FY 2002, at least 59 percent of RD's eligible debt should be referred to Treasury for cross-servicing. The referral timeline is based on RD performing a detailed account review to ensure that all requirements for transferring accounts to Treasury are met, including the assurance that the debts are legally enforceable and not under workable servicing agreements.

Reporting of Write-Offs to IRS on 1099-C

USDA has been reporting Form 1099-C write-offs to the IRS for inclusion in debtors' taxable income since 1990. In 1996, USDA agencies reported write-offs totaling more than \$1.2 billion. Through September 30, 2001, USDA agencies reported a total of \$363 million in debt disposition to IRS through the Form 1099-C process; our trend of increased collections over the years resulted in fewer Form 1099-C write-offs.

Report to Credit Bureaus/Barring Delinquent Debtors

USDA agencies use a variety of screening tools to identify delinquent Federal debtors, such as credit reports, the Department of Housing and Urban Development's Credit Alert Interactive Voice Response System (CAIVRS), financial reports, debt certification statements, debarment and suspension certificates, and reporting of delinquent debtors to credit bureaus. USDA has reported both delinquent and current domestic commercial accounts to credit bureaus since 1985. Unless exempt by program statute, we have reported delinquent individuals to credit bureaus since 1990.

USDA continues to believe that one of the most effective tools for barring delinquent debtors from receiving additional Federal assistance would be for Federal agencies to gain access to a centralized government database that contains a complete universe of debtors. We believe that the Treasury's TOP database could serve well as that tool. USDA agencies have completed Treasury surveys and are looking forward to participating in this project.

This statement reflects the progress that USDA has made in collecting delinquencies. It also represents our pledge to you, Mr. Chairman, and to the Committee that this issue commands the highest priority and attention at USDA.

Mr. HORN. I appreciate that. I grew up on a farm and we almost lost it in the 1930's and my mother, who made all the accounts, said never again will I ever have a mortgage; it will all be in cash. When I see on television a sheriff coming out to a South Dakota farm or something, tears come to my eyes. I am sure they came to yours with your neighbor. That is very tough but we have to be doing it right.

We will now move to the Director of Financial Management and Assurance of the U.S. General Accounting Office, Gary T. Engel. We would appreciate your testimony. Then we will hear Mr. Gregg and go to questions.

STATEMENT OF GARY T. ENGEL, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE

Mr. ENGEL. Thank you, Mr. Chairman and Congresswoman Schakowsky.

Accompanying me today is Ken Rugar, the Assistant Director performing our debt collection work for us.

I am pleased to be here today to discuss debt collection initiatives at two major components of the Department of Agriculture, the Rural Housing Service and the Farm Service Agency. While my testimony today is limited primarily to our work at these two entities, our audit results are based on a larger body of work on which I testified before the subcommittee in October. That work assessed the progress of selected agencies' implementation of key aspects of the Debt Collection Improvement Act of 1996, which was developed under the leadership of this subcommittee. It is essential that agencies be accountable for putting effective practices in place to maximize the collections of billions of dollars of non-tax delinquent debt owed the Federal Government.

The DCIA provides agencies with important tools to achieve this objective. We have previously testified before this subcommittee on the Government's slow pace toward fully and effectively using these practices the act allows. Since its passage 5 years ago, our message has been clear and consistent. If DCIA's benefits are to be more fully realized, improvements are necessary in agency implementation efforts.

While there has been important progress such as FMS implementation of its offset program, especially in the tax refund area, unfortunately our work over the past several months at selected agencies, including Agriculture, has not allayed our concerns about the lack of priority agencies have placed on implementing DCIA. Besides payment offsets, the DCIA makes available other means to collect delinquencies as well. These collection techniques include, for instance, FMS's centralized debt collection effort known as cross-servicing but for these efforts to be successful, agencies must fully and promptly identify and refer all delinquent debt. While DCIA requires such referrals, this is not always the case as significant amounts of eligible delinquent debts are still not being referred.

As I will highlight today, the Rural Housing Service and the Farm Service Agency have not yet taken effective actions to ensure all eligible delinquent debt is promptly referred to FMS for collec-

tion action. For example, Rural Housing Service may have understated by about \$348 million the amount of direct single family housing loans reported as eligible for referral to Treasury's Offset Program as of September 30, 2000. Also as of that date, this agency had not referred any direct single family housing loans for cross-servicing primarily because its system which was implemented after the DCIA was enacted does not contain significant data to differentiate between such loans that are eligible for cross-servicing and those that are not. The Farm Service Agency did not have a process or sufficient controls to adequately identify and report direct farm loans eligible for referral to FMS as of September 30, 2000. In addition, as of that date, only \$38 million of such loans were referred to FMS for cross-servicing. This is because this agency suspended its referrals in April 2000 pending the development and implementation of a new policy covering such loans. According to Agriculture, the first referral to FMS under this new policy was made in September 2001. Further, the Farm Service Agency has lost and continues to lose opportunities for maximizing collections because it does not refer co-debtors on direct farm loans to FMS for offset. Moreover, the Rural Housing Servicing and the Farm Service Agency both have missed opportunities to potentially collect millions of dollars related to losses on guaranteed loans because neither agency treated such losses as non-taxed Federal debts.

To facilitate debt collection, DCIA also authorizes agencies to administratively garnish up to 15 percent of a delinquent, non-tax debtor's disposable pay until the debt is fully recovered. However, Agriculture and most other agencies still have not utilized this authority to collect delinquent debt. This is disappointing in light of the fact that experts have testified before this subcommittee that wage garnishment can be an extremely powerful debt collection tool as the mere threat of garnishing wages is often enough to motivate better repayment.

Agriculture stated that it plans to implement administrative wage garnishment in fiscal year 2002 but as of the completion of our field work, it had not yet established a written implementation plan. Such a plan will be important to the effective implementation of this debt collection tool. Challenges lie ahead for Agriculture to successfully implement certain provisions of DCIA. As a result, until these provisions are fully implemented, Agriculture will continue to miss opportunities to collect millions of dollars of delinquent Federal non-taxed debt. We have noted that these agencies recognize the challenges they face and have several efforts underway to address them. To assist them in addressing these challenges, we plan to recommend corrective measures that can be taken by Agriculture.

Mr. Chairman, this concludes my statement. We would be pleased to respond to any questions.

[The prepared statement of Mr. Engel follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency,
Financial Management and Intergovernmental
Relations, Committee on Government Reform, House
of Representatives

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DEBT COLLECTION
IMPROVEMENT ACT OF
1996

Department of Agriculture
Faces Challenges
Implementing Certain Key
Provisions

Statement of Gary T. Engel
Director, Financial Management and Assurance



GAO-02-277T

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss debt collection initiatives of two major components of the Department of Agriculture—the Rural Housing Service (RHS) and the Farm Service Agency (FSA). As you well know, collecting delinquent debt has historically presented major challenges for federal agencies. It is with this backdrop that the Congress, with a key role played by this Subcommittee, passed the Debt Collection Improvement Act of 1996 (DCIA). Among other things, DCIA requires agencies to (1) notify the Department of the Treasury (Treasury) of debts delinquent over 180 days for purposes of administrative offset against any amounts that might otherwise be due to those persons or entities, and (2) refer such debts to Treasury for centralized collection action known as cross-servicing. In addition, to facilitate debt collection, the act authorizes agencies to administratively garnish the wages of delinquent debtors.

While my testimony today is limited primarily to our work related to RHS and FSA, our audit results are based on a larger body of work, on which I testified before this Subcommittee on October 10, 2001.¹ That work assessed the progress of selected agencies in referring debt for administrative offset and cross-servicing and in implementing certain other key provisions of DCIA—administrative wage garnishment (AWG) and the debtor bar provision. In preparation for this testimony, we reviewed the Department of Agriculture's (Agriculture) response to this Subcommittee's October 16, 2001, letter containing questions concerning the agencies' progress in referring delinquent debt to Treasury's Financial Management Service (FMS) and mitigating any barriers to complete and timely referrals. This updating work was done in accordance with U.S. generally accepted government auditing standards.

Today, I will discuss (1) difficulties RHS and FSA have experienced identifying and referring eligible debts to FMS, (2) obstacles that have hampered their prompt referral of eligible debts, and (3) whether exclusions from referral requirements were consistent with established criteria. In addition, my testimony will cover Agriculture's actions and plans in context with information dealing with the extent to which eight other large Chief Financial Officers (CFO) Act agencies and FMS use or plan to use AWG to collect delinquent federal non-tax debt.

¹Debt Collection Improvement Act of 1996: Agencies Face Challenges Implementing Certain Key Provisions (GAO-02-61T, Oct. 10, 2001).

First, a few overall comments about DCIA implementation. We testified before this Subcommittee in June 2000 that, although DCIA was enacted in April 1996, the act's cross-servicing provision still had not been fully implemented.² We emphasized that on a governmentwide basis, the vast majority of reported debt delinquent over 180 days was being excluded by agencies from referral requirements under exclusions allowed by DCIA or Treasury. However, we cautioned that the reliability of the amounts reported as excluded was not being independently verified. We also stressed that agencies were not promptly referring all eligible debts to FMS. The picture left with your Subcommittee was that agency implementation would have to improve vastly if the debt collection benefits of DCIA were to be more fully realized.

On the other hand, I am pleased to report that FMS, in partnership with agencies, is making steady progress in collecting delinquent federal non-tax debt through the Treasury Offset Program (TOP). As you know, TOP is a mandatory governmentwide debt collection program that compares delinquent debtor data to certain federal payment data. Agencies are required to refer eligible delinquent debt to TOP as soon as it is 180 days delinquent, but may, at their discretion, refer it sooner. When a delinquent debtor record matches a payment record, TOP recovers all or a portion of the delinquent debt by offsetting some or all of the federal payment scheduled to be issued to the debtor. During each of the last 3 years, FMS has reported collecting over \$1 billion of such debt with TOP by offsetting tax refund payments. Tax refund offsets have been FMS' most effective means of debt collection and collections have increased, in part, as a result of systems changes the agency implemented. For example, the TOP system can offset against both the primary and secondary taxpayer, where the previous tax refund system could only offset against the primary taxpayer. In addition, the TOP system can accept new debts or increased debt balances all during the year, whereas the previous tax refund system could only accept them at the beginning of the tax season.

While there has been important progress, our follow-up work at selected agencies, including Agriculture, over the past several months has not allayed our concerns about the priority agencies have placed on implementing DCIA. As I will highlight today, Agriculture has not yet taken

²Debt Collection: Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative (GAO/T-AIMD-00-213, June 8, 2000).

effective actions to ensure that all eligible delinquent debt is promptly referred to FMS for collection action. For example,

- As of September 30, 2000, RHS reported that it had referred to TOP \$201 million of direct single-family-housing (SFH) loans but had not referred any amounts to FMS for cross-servicing, primarily due to systems limitations. According to RHS officials, the agency will refer 100 to 200 loans a month to FMS until the systems limitations are rectified. Also, RHS' reported delinquent direct SFH loans eligible for TOP might have been understated by about \$348 million because it did not report all amounts that were due and payable.
- FSA did not have an adequate process or sufficient controls to adequately identify and report direct farm loans eligible for referral to FMS as of September 30, 2000. In addition, a large portion of the approximately \$400 million of delinquent direct farm loans that became eligible for TOP during calendar year 2000 likely was not promptly referred because the agency refers debts to TOP only once annually, during December. Further, FSA did not refer co-debtors for the \$934 million of delinquent farm loans previously referred to TOP because of systems limitations that had existed for years. Moreover, the agency had referred only \$38 million of direct farm loans to FMS for cross-servicing because it suspended cross-servicing referrals pending development and implementation of its new cross-servicing policy. According to an Agriculture official, the first referral to FMS under this new policy was made in September 2001.
- RHS and FSA have not referred to FMS for collection action any losses on their guaranteed SFH and farm loans, respectively, even though through September 30, 2000, they have experienced losses of about \$132 million and about \$293 million, respectively, on such loans since the enactment of DCIA.

Also, Agriculture and other agencies still have not utilized AWG as authorized by DCIA to collect delinquent non-tax debt even though experts have testified before this Subcommittee that AWG can potentially be an extremely powerful debt collection tool.

As stated in my testimony on October 10, 2001,³ if the government is going to make significant progress in collecting the billions of dollars of

³GAO-02-61T, Oct. 10, 2001.

delinquent non-tax debt, expedient and effective implementation of the debt collection provisions of DCLA must be given a high priority by agencies. This has not been the case at the agencies we reviewed. In many cases, the agencies continue to show extended milestones for needed corrective actions years in the future, even though substantial amounts of eligible delinquent debt have still not been referred.

RHS' Direct Single-Family-Housing Loan Program

RHS administers a direct SFH loan program to help low-income individuals or households purchase homes in rural areas. As of September 30, 2000—the most recent fiscal year end for which agency-certified reporting exists for Agriculture—RHS reported having about \$17 billion outstanding in direct SFH loans. As shown in table 1, RHS reported \$383 million of direct SFH loans over 180 days delinquent, including debts classified as Currently Not Collectible (CNC) on its Treasury Report on Receivables Due From the Public (TROR) as of September 30, 2000.⁴

Table 1: RHS' Direct SFH Delinquent Loans as of September 30, 2000

	Debt amounts (in millions of dollars)
Debts more than 180 days delinquent, including debts in CNC	\$383
Less: exclusions allowed by DCIA ^a	182
Debts eligible for Treasury offset	201
Debts referred to Treasury for offset	201
Debts referred to Treasury for cross-servicing	0

^aExclusions were for bankruptcy, forbearance/appeals, and foreclosure.

Source: TROR fourth quarter 2000 (September 30, 2000).

RHS excluded \$182 million of this delinquent debt from referral to FMS for TOP and cross-servicing. In addition, RHS had not referred any debts to FMS for cross-servicing as of September 30, 2000, based, in part, on an exemption proposal which RHS stated, in its TROR as of the same date, had been approved by Treasury. However, Treasury officials told us that Treasury never approved a proposal to exempt RHS loans from cross-servicing. Accordingly, opportunities to collect these loans through Treasury's cross-servicing program are being missed.

⁴CNC debts are debts the agency has written off for accounting purposes but has not discharged. Collection action can still be taken on such debts.

Support for Not Referring a Significant Amount of Delinquent Direct SFH Loans Not Maintained	DCIA requires federal agencies to refer all legally enforceable and eligible non-tax debts that are more than 180 days delinquent to Treasury for collection through administrative offset and cross-servicing. We found that RHS did not maintain supporting documentation for direct SFH loans it excluded from such referral as of September 30, 2000. Consequently, we were not able to determine whether the agency's exclusion of \$182 million of delinquent debt was based on relevant legislative and regulatory criteria. FMS officials told us that it is their expectation that agencies would retain the applicable data needed to justify not referring delinquent debt for collection action. Further, the Comptroller General's <i>Standards for Internal Controls in the Federal Government</i> states that all transactions and other significant events need to be clearly documented and that the documentation should be readily available for examination. ⁵
Systems Limitations Hampered Referral Activity	According to RHS officials, since implementing a new automated centralized loan servicing system in fiscal year 1997, RHS has been unable to readily identify direct SFH loans that are eligible for referral to FMS for cross-servicing. Essentially, the system does not contain sufficient data to differentiate loans eligible for cross-servicing from those that are not. Although RHS plans system enhancements for the third quarter of fiscal year 2002, which the agency believes will facilitate loan identification for cross-servicing, RHS officials advised us that relatively few referrals to FMS will likely be made in the near term. While we were performing our fieldwork, RHS began an interim process to manually identify such loans eligible for cross-servicing. According to RHS' debt referral plan, because the interim process is tedious and labor intensive, only about 100 to 200 loans were to be referred per month to Treasury, beginning in May 2001. RHS officials said that all direct SFH loans eligible for TOP will have to be reviewed for cross-servicing eligibility. RHS reported 23,032 direct SFH loans eligible for TOP as of September 30, 2000. The agency intends to refer about 30 percent of eligible direct SFH loans for cross-servicing in fiscal year 2002.
Exemption Request Denied	According to RHS officials, nothing had been done prior to our review to manually identify delinquent direct SFH loans for referral to FMS for cross-servicing because the agency had requested a Treasury exemption

⁵*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Nov. 1999).

	<p>from cross-servicing for direct loans made under the SFH loan program. RHS had requested that it be allowed to continue to internally service the loans for up to 1 year after liquidation of the collateral, which, in some cases, could be years after the loans became delinquent. Treasury officials told us that Treasury had not approved the request, either formally or informally, and stated that Treasury discouraged RHS from making the request, which was not submitted to Treasury until November 2000. Treasury formally denied RHS' exemption request for the direct SFH loan program on May 14, 2001. The declination was based, in part, on the fact that similar loans were being referred for cross-servicing by other agencies and RHS had not identified any new or unique collection tools applicable to direct SFH loans.</p>
RHS May Have Significantly Understated Direct SFH Loans Eligible for Referral	<p>When a debtor becomes delinquent 91 days on an installment payment for a direct SFH loan, RHS notifies the debtor via certified mail that the entire debt balance is accelerated and is due and payable. As shown in table 1, RHS reported \$201 million of direct SFH loans as eligible for TOP as of September 30, 2000. However, this amount may have been understated by about \$348 million because it only included the delinquent installment portion of the loans. According to FMS, the entire accelerated balance of the debt should be reported as delinquent and, absent any exclusions allowed by DCIA or Treasury, should be reported as eligible for referral to FMS for collection as well.</p>
FSA's Direct Farm Loan Program	<p>FSA provides, among other things, temporary credit to farmers and ranchers who are high-risk borrowers and are unable to obtain commercial credit at reasonable rates and terms. FSA reported having about \$8.7 billion in direct farm loans as of September 30, 2000, and as shown in table 2, the agency reported about \$1.7 billion of direct farm loans over 180 days delinquent, including debts in CNC status as of September 30, 2000.</p>

Table 2: FSA's Delinquent Direct Farm Loans as of September 30, 2000

	Debt amounts (in millions of dollars)
Debts more than 180 days delinquent, including debts in CNC	\$1,666
Less: exclusions allowed by DCIA ^a	732
Debts eligible for Treasury offset ^b	934
Debts referred to Treasury for offset	934
Debts referred to Treasury for cross-servicing	38

^aThe vast majority of the reported exclusions were for bankruptcy, forbearance/appeals, foreclosure, and Department of Justice (DOJ)/litigation.

^bIn addition, other exclusions from referrals to FMS for cross-servicing, including internal offset, were reported by FSA as of September 30, 2000.

Source: TROR fourth quarter 2000 (September 30, 2000).

FSA excluded substantial amounts of this debt from referral to FMS for TOP and cross-servicing. In addition, FSA officials told us that only \$38 million was referred to FMS for cross-servicing as of September 30, 2000, because FSA suspended all cross-servicing referrals in April 2000 pending development and implementation of new cross-servicing guidelines for the agency.

Effective Process and Controls Lacking for Determining Eligibility for Referral of Direct Farm Loans

FSA did not have a process or sufficient controls in place to adequately identify direct farm loans eligible for referral to FMS. Certain types of debts were automatically excluded from referral without any review for eligibility. In other cases, FSA's Program Loan Accounting System did not contain information from the detailed loan files located at the FSA field offices that would be key to determining eligibility for referral. In addition, FSA did not have any monitoring or review procedures in place to help ensure that FSA personnel routinely updated the detailed debt files. Consequently, amounts of direct farm loans FSA reported to Treasury as eligible for referral were not accurate.

Excluded amounts for bankruptcy, forbearance/appeals, foreclosure, and Department of Justice (DOJ)/litigation totaled about \$694 million, or about 95 percent of the \$732 million that was excluded from referral to FMS for TOP and cross-servicing. Of this amount, \$295 million was for DOJ/litigation and was comprised of judgment debts. According to FSA officials, deficiency judgments—court judgments requiring payment of a sum certain to the United States—are eligible for TOP and should be referred to FMS. However, FSA's Finance Office in St. Louis automatically excluded all judgment debts for direct farm loans from referral to FMS.

because automated system limitations precluded staff from identifying deficiency judgments. Our inquiries caused FSA officials to initiate a special project in May 2001 to identify all deficiency judgment debts for direct farm loans so that such debts could be referred to FMS.

Determinations as to whether direct farm loans are in bankruptcy, forbearance/appeals, or foreclosure and, therefore, excluded from referral to FMS, are made by FSA personnel in numerous FSA field offices across the country. Personnel in the FSA field offices we visited did not routinely update the eligibility status of farm loans in FSA's Program Loan Accounting System, as was evident by the selected excluded loans we reviewed. Using statistical sampling, we selected and reviewed supporting documents to determine whether farm loans that selected FSA field offices in California, Louisiana, Oklahoma, and Texas had excluded from referral to FMS were consistent with established criteria dealing with bankruptcy, forbearance/appeals, foreclosure, and DOJ/litigation.⁶ Based on the results of our sample, we estimate that about 575, or approximately one-half of the excluded loans in the four selected states, had been inappropriately placed in exclusion categories by FSA as of September 30, 2000.⁷ Because of these numerous errors, we did not test other reported exclusions from referral to FMS for cross-servicing, such as loans being internally offset.

One of the most frequently identified inappropriate exclusions pertained to amounts discharged in bankruptcy, which should not have been included in delinquent debt. Fifty-two bankruptcies that we reviewed as part of our sample had been discharged in bankruptcy court prior to September 30, 2000. In fact, many had been discharged several years prior to that date. For example, one loan with a balance due of about \$325,000 was reported as a delinquent debt over 180 days and excluded from referral requirements because of bankruptcy. However, a review of the loan file at the FSA field office showed that a bankruptcy court discharged the debt in 1986 and, therefore, the debt should not have been included in either the delinquent debt or exclusion amounts reported to Treasury as of September 30, 2000.

⁶Field offices in these four states serviced about \$272 million, or about 39 percent, of the total debts excluded from referral to FMS as of September 30, 2000, for bankruptcy, forbearance/appeals, foreclosure, or DOJ/litigation.

⁷We estimate that 48.5 percent \pm 15.7 percent of the population were inappropriately reported as exclusions from referral to TOP. When projecting these errors to the population of 1,187 loans, we are 95 percent confident that the errors in the population are between 389 and 761 loans.

According to Farm Loan Managers in some of the FSA field offices we visited, they have not written off many direct farm loans discharged in bankruptcy because making new loans has been a higher-priority use of their resources. In addition, FSA did not provide sufficient oversight to help ensure that field office personnel adequately tracked the status of discharged bankruptcies and updated the loan files and debt records in the Program Loan Accounting System. Also, it is important to note that delays in promptly writing off discharged bankruptcies not only distort the TROR for debt management and credit policy purposes, but also distort key financial indicators such as receivables, total delinquencies, and loan loss data. This makes the information misleading for budget and management decisions and oversight. Aside from erroneously inflating reported receivables and delinquent loans, failure to process loan write-offs delays reporting closed-out debt amounts to the Internal Revenue Service as income to the debtor.⁸

**Referrals of Direct Farm
Loans for Cross-Servicing
Suspended**

As previously mentioned, only \$38 million of direct farm loans were reported by FSA as having been referred for cross-servicing because the agency suspended such referrals in April 2000 pending development and implementation of a new policy to refer to FMS for cross-servicing only debts where the 6-year statute of limitations has not expired. FSA issued revised guidelines in July 2001 to incorporate the 6-year statute of limitations, and the agency is now reviewing loans at over 1,000 FSA field offices to determine eligibility for referral to Treasury under the new policy. According to an Agriculture official, the first referral to FMS under this new policy was made in September 2001.

According to FSA officials, FSA decided to adopt the new policy because it believed that FMS informed them that accounts for which the 6-year statute of limitations had expired should not be referred for cross-servicing. However, FMS officials told us that FMS had not provided such guidance to FSA. FMS officials emphasized that FMS will accept debts that are older than 6 years because, although the debts cannot be referred to DOJ for litigation, collection can still be attempted through other debt collection tools such as referral to private collection agencies.

⁸The Federal Claims Collection Standards—which were last updated in November 2000—and OMB Circular A-129 both require agencies, in most cases, to report closed-out debt amounts to the Internal Revenue Service as income to the debtor.

**Co-Debtors Not Referred
for TOP**

Even though FSA reported having referred \$934 million of direct farm loans to FMS for TOP as of September 30, 2000, the agency has lost and continues to lose opportunities for maximizing collections on this debt because it does not refer co-debtors. According to FSA officials, the vast majority of direct farm loans have co-debtors, who are also liable for loan repayment. However, FSA's automated loan system cannot record more than one debtor because the system modifications necessary to accept Taxpayer Identification Numbers (TINs) for multiple debtors have not been made. According to an FSA official, the need to have co-debtor information in the system to facilitate debt collection was initially determined in 1986. However, we were told that to date, higher-priority systems projects have precluded FSA from completing the necessary systems enhancements to allow the system to accept more than one TIN per debt. In other words, although FSA recognized years ago the need to take action, the agency has not considered this to be a high enough priority. According to FSA officials, FSA has now incorporated this requirement in the new Farm Loan Program Information Delivery System scheduled for implementation in fiscal year 2005.

**Eligible Debt Not Promptly
Referred to TOP**

According to data provided by FSA officials, about \$400 million of new delinquent debt became eligible for TOP during calendar year 2000. Although FSA officials stated that the debts became eligible relatively evenly throughout the year, debts eligible for TOP are referred by FSA only once annually, during December. Consequently, a large portion of the \$400 million of debt likely was not promptly referred when it became eligible. As we have previously testified, industry statistics have shown that the likelihood of recovering amounts owed decreases dramatically with the age of delinquency of the debt.⁹ Thus, the old adage that "time is money" is very relevant for referrals of debts to FMS for collection action. FSA officials told us that the agency agrees that quarterly referrals could enhance possible collection of delinquent debts by getting them to Treasury earlier and has plans to start a quarterly referral process in fiscal year 2003.

⁹GAO/T-AIMD-00-213, June 8, 2000.

RHS and FSA Have Not Referred Losses on Guaranteed Loans to FMS

Since DCIA was enacted in April 1996, RHS and FSA have also missed opportunities to potentially collect millions of dollars related to losses on guaranteed loans. As of September 30, 2000, neither RHS nor FSA treated such losses resulting from the SFH program and the Farm Loan Program, respectively, as non-tax federal debts. Consequently, neither agency had policies and procedures in place to refer such losses to Treasury for collection through FMS' TOP or cross-servicing programs.

According to RHS and FSA officials and reports provided by the agencies, guaranteed SFH loans and farm loans, as well as related losses, have been significant since the inception of the guaranteed programs. The RHS guaranteed SFH program has been expanding in recent years. The outstanding principal due on the guaranteed SFH portfolio grew from about \$3 billion in fiscal year 1996 to over \$10 billion as of September 30, 2000. Through September 30, 2000, RHS had paid out losses of about \$132 million on the guaranteed SFH program since fiscal year 1996. The outstanding principal due on guaranteed farm loans was about \$8 billion as of September 30, 2000. Through September 30, 2000, FSA had paid out about \$293 million in losses since fiscal year 1996.

In January 1999 and June 2000, Agriculture's Office of Inspector General (OIG) first reported that RHS' and FSA's guaranteed losses, respectively, were not being referred to Treasury for collection. The OIG recommended that both agencies recognize the losses as federal debt and begin referring such debt to FMS for collection.

Although RHS has recently initiated action to begin developing policies for referring losses on guaranteed loans to FMS for collection action in the future, its efforts to make necessary regulatory and policy changes have not been fully completed, resulting in continuing missed opportunities to potentially collect losses on guaranteed loans. FSA, on the other hand, has recently initiated action to begin implementing new policies for referring losses on all new guaranteed loans to FMS for collection action. Because these guaranteed loan programs are significant to RHS and FSA, the agencies' development and implementation of policies and procedures to promptly refer eligible amounts to Treasury for collection action are critical.

Agriculture and Most Other Agencies Have Not Used AWG to Collect Delinquent Debt

DCIA authorizes both federal agencies that administer programs that give rise to delinquent non-tax debts and federal agencies that pursue recovery of such debts, such as FMS, to administratively garnish up to 15 percent of a debtor's disposable pay until the debt is fully recovered.¹⁰ Agriculture and the other eight CFO Act agencies we surveyed had not yet used AWG as authorized by DCIA to collect delinquent non-tax debt as of the date of completion of our fieldwork, over 5 years after DCIA went into effect. Eight of these nine agencies, including Agriculture, have expressed the intent to implement AWG to varying degrees over the next 5 years. Given the possible added collection leverage afforded through the availability and use of AWG, timely implementation would seem prudent. As of September 30, 2000, the eight agencies we surveyed that intend to implement AWG reported holding a total of about \$23 billion in consumer debt,¹¹ which typically consists of debts by individuals, many of whom are employed.¹² This is not to imply that AWG could be used to collect all such consumer debt because circumstances such as bankruptcy or appeals could limit the application of this debt collection tool.

Agencies, including Agriculture, identified various reasons for the delay in implementing AWG, including the need to focus priorities on the mandatory provisions of DCIA and develop the required regulations or administrative hearing procedures to implement AWG. This is disappointing in light of the large population in the country's labor force and the fact that debt collection experts testified before this Subcommittee in 1995, prior to the enactment of DCIA, that AWG can be an extremely powerful debt collection tool, as the mere threat of AWG is often enough to motivate debtor repayment.

¹⁰Disposable pay means that part of the debtor's compensation (including, but not limited to, salary, bonuses, commissions, and vacation pay) from an employer remaining after the deduction of health insurance premiums and any amounts required by law to be withheld.

¹¹The agencies held over \$25 billion in debts classified as CNC, which were not broken out by consumer and commercial debts on the agencies' TRORs. Although CNC debts are written off by the agencies for accounting purposes, AWG could be applicable to significant amounts of such debts.

¹²Consumer debt is more likely to be subject to AWG because the debtor is often an individual who is employed. Certain commercial debts could involve individual debtors, guarantors, or co-debtors, and AWG may be applicable to such debtors.

Agriculture's Implementation of AWG

In responding to our survey, Agriculture said it would rely exclusively on FMS to implement AWG as part of cross-servicing, including identifying the debtors' employers and sending notices and garnishment orders. At the time of the completion of our fieldwork, Agriculture had not established specific dates for implementing AWG and was among the five surveyed agencies intending to implement AWG that did not have a written implementation plan. Agriculture subsequently stated that it planned to implement AWG during fiscal year 2002. Given the extent of agency or contractor effort needed to carefully administer such processes, we believe agencies will need fairly detailed implementation plans. These plans should include a clear description of and strategy for how the agency will actually perform AWG and when AWG will be fully implemented. The plans should cover the types of debts subject to AWG and the policies and procedures for administering AWG. Also, agencies should identify the processes they will use to conduct hearings for debtor appeals. Consequently, it is not presently clear when Agriculture will be able to fully incorporate AWG into its debt collection processes.

Certain Factors Could Limit FMS' Use of AWG

FMS has been working with its private collection agency contractors to incorporate AWG into its cross-servicing program. Although FMS' incorporation of AWG into the cross-servicing program would undoubtedly improve collection success and make the FMS collection program more comprehensive, certain factors could limit its use. An important consideration is that much of the delinquent debt reported by agencies as eligible for cross-servicing is not currently being promptly referred to FMS. For example, the four agencies we surveyed that plan to rely exclusively on FMS for AWG implementation, including Agriculture, together reported having referred only \$288 million of about \$690 million of all types of debt that were reported as eligible for cross-servicing as of September 30, 2000.¹³

Although implementation of AWG under DCIA is still largely in its infancy, the extent to which the larger CFO Act agencies, such as Agriculture, refer all eligible delinquent debt in a timely manner will be a major factor in FMS' ability to make AWG fully successful. As discussed previously, RHS and FSA have not identified and promptly sent debts to FMS for cross-

¹³According to FMS' Performance Summary Report for July 2001, only 63 percent of debt reported by federal agencies as eligible for cross-servicing governmentwide as of September 30, 2000, had been referred to FMS.

servicing. Consequently, if AWG were to have been attempted using only those delinquent debts reported as referred for cross-servicing for fiscal year 2000, substantial amounts of delinquent debt would not have been subject to this debt collection tool.

The ability to efficiently handle requests for hearings will also be important. FMS has assigned responsibility for holding AWG hearings to the agencies that use AWG as a collection tool—whether in-house, through FMS, or both. Therefore, these agencies need to develop and acquire the capacity to manage the hearings process expeditiously.

In summary, as we have discussed, Agriculture, along with other agencies, has not demonstrated a sense of urgency in integrating certain provisions of DCIA into its debt collection processes. Challenges lie ahead for Agriculture to successfully implement such provisions of the act. As a result, until these provisions are fully implemented, Agriculture will continue to miss opportunities to collect millions of dollars of delinquent federal non-tax debt. To assist in addressing such challenges, we will be separately providing recommended actions to Agriculture.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

For information about this testimony, please contact Gary T. Engel at (202) 512-3406. Major contributors to this testimony include Arthur W. Brouk, Richard T. Cambosos, Michael S. LaForge, and Kenneth R. Rupar.

Mr. HORN. Thank you very much for a very thorough analysis. Now we go to Commissioner Richard L. Gregg, Financial Management Service, Department of the Treasury. Mr. Gregg.

STATEMENT OF RICHARD L. GREGG, COMMISSIONER, FINANCIAL MANAGEMENT SERVICE, DEPARTMENT OF THE TREASURY

Mr. GREGG. Thank you, Mr. Chairman, Congresswoman Schakowsky.

I am pleased to join Agriculture Secretary Moseley and Mr. Engel from the General Accounting Office in a continued discussion of the implementation of the Debt Collection Improvement Act of 1996. In my October 10th statement before the subcommittee, I reported on fiscal year 2001 collections, described the significant new elements of FMS's Debt Collection Program and provided a status report on those that are near completion. This morning I will share the most recent data on collections and discuss the Department of Agriculture's participation in debt collection.

As I stated at the October 10th hearing, \$12 million in delinquent debt owed to the Federal Government has been collected since the enactment of DCIA, with a record amount of \$3.2 billion collected in fiscal year 2001. I attribute this success to a strong and effective payment offset and cross-servicing operation and expansion of the capabilities of collection systems, improved management by the agencies that have debt portfolios and a steady increase in the amount of delinquent debt referred to Treasury for collection by agencies. For purposes of this hearing, I will provide collection statistics for the first 2 months of fiscal year 2002 that highlight continued growth in the offset and levy programs.

During this time period during November, \$16.2 million has been collected to the offset of Federal payments other than tax refunds. This compares to \$25.3 million in collections for all of fiscal 2001. The full implementation of the Social Security Benefit Payment Offset Program in October accounts for the significant increase in offset collections. Also, in the first 2 months of fiscal year 2002, \$2.8 million has been collected in delinquent Federal tax debts through the continuous Tax Levy Program. For the same reporting period in fiscal year 2001, \$1 million was collected. I believe these statistics are a strong indication that the levy program will be even more successful in February at which time the Internal Revenue Service will begin levying Social Security benefit payments.

Mr. Chairman, before proceeding with the remainder of my statement, I would like to give a brief update on Treasury's use of private collection agencies for debt collection. Treasury successfully implemented a new contract that went into effect October 1st. Since that time, nearly 45,000 debts for an associated dollar amount of nearly \$831 million have been distributed to five agencies under contract.

As you know, critical to the success of the Debt Collection Program is the referral of delinquent debt by agencies to Treasury for collection. Moreover, referring the debts in a timely manner is equally important and can make the difference between collecting and not collecting. With respect to referrals of debts to the Treasury Offset Program, USDA has generally complied with the DCA

requirements that debts more than 180 days delinquent be referred for collection. Specifically, I would like to single out and commend USDA's Food and Nutrition Service with which Treasury has had a longstanding and close working relationship. The agency is exemplary in its referral of Food Assistance Program debts owed to the agency and serves as a model for other program agencies.

On another front, as mentioned earlier, USDA is the first major payroll payment processing organization, of which there are five, to participate in the centralized Federal Salary Offset Program. As I stated at the October hearing, this debt collection program is a fully automated system designed to centralize the offset of Federal salary payments to collect non-tax debts and delinquent child support debts. Ultimately, the system will be used to levy Federal salary payments to collect tax debts. USDA's National Finance Center participated in the pilot program, was closely involved in the system planning and development and has established itself as a leader in program implementation.

In contrast, USDA's participation in Treasury's Cross-Servicing Program has lagged behind other agencies. Based on data supplied by USDA as of September 30th, 22 percent of Agriculture's delinquent that are eligible for collection have been referred to Treasury. The government-wide average for cross-servicing referrals is 73 percent. Participation by two USDA agencies in particular, the Farm Service Agency and the Rural Housing Service, is marginal at best. While the USDA has provided several reasons for this low rate of referral, I believe any barriers to participation can be overcome providing it is a USDA priority.

Currently, FMS is in discussions with Agriculture to establish ambitious cross-servicing referral goals for fiscal year 2002 for both RHS and FSA. FMS will assist Agriculture in developing individual DCIA implementation plans and will closely monitor debt performance indicators devoting special attention to identify all debts eligible for referral.

On the subject of administrative wage garnishment, USDA has stated its intentions to authorize use of this important tool as part of the cross-servicing program. I encourage the Department of Agriculture to work with Treasury on developing a plan to take full advantage of this collection process. It is important to note, however, that a significant percentage of USDA's delinquent portfolio, such as Food Stamp Program debts, is exempt from cross-servicing by Treasury and is therefore not eligible for collection through Treasury's Administrative Wage Garnishment Program.

I will conclude my remarks by stating that Treasury stands ready to work with USDA to overcome the barriers to program participation. I believe that by working together we can greatly improve debt collection performance.

I would be happy to answer any questions.

[The prepared statement of Mr. Gregg follows:]



DEPARTMENT OF THE TREASURY
WASHINGTON

**Testimony of
Commissioner Richard L. Gregg
Financial Management Service – U.S. Department of the Treasury
before the
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
House Committee on Government Reform
December 5, 2001
“The Debt Collection Improvement Act of 1996: How Well Is It Working?”**

Mr. Chairman and Members of the Subcommittee:

I am pleased to join Agriculture Deputy Secretary Moseley and Mr. Engel from the General Accounting Office in a continued discussion of the implementation of the Debt Collection Improvement Act of 1996 (DCIA). In my October 10 statement before the subcommittee, I reported on Fiscal Year 2001 collections, described the significant new elements of the Financial Management Service's (FMS) debt collection program, and provided a status report on those that are near completion. This morning, I will share the most recent data on collections and discuss the Department of Agriculture's (USDA) participation in debt collection.

Collections

As I stated at the October 10 hearing, \$12 billion in delinquent debt owed to the federal government has been collected since the enactment of the DCIA, with a record amount of \$3.2 billion collected in Fiscal Year 2001. I attribute this success to a strong and effective payment offset and cross-servicing operation, an expansion of the capabilities of the collections systems, improved management by the agencies of their debt portfolios, and a steady increase in the amount of delinquent debt referred to Treasury for collection by agencies. For purposes of this hearing, I will provide collections statistics for the first two months of Fiscal Year 2002, that highlight continued growth in the offset and levy programs. During this time period, through November, \$16.2 million has been collected through the offsets of federal payments other than tax refunds. This compares to \$25.3 million in collections for all of Fiscal Year 2001. The full implementation of the Social Security benefit payment offset program in October, accounts for this significant increase in offset collections. In the first two months of Fiscal Year 2002, \$2.8 million has been collected in delinquent federal tax debts through the continuous federal tax levy program. For the same reporting period in Fiscal Year 2001, \$1 million was collected. I believe these statistics are a strong indication that the levy program will be even more successful in February, at which time the Internal Revenue Service will begin levying Social Security benefit payments. Mr. Chairman, before proceeding with the remainder of my statement, I would like to give a brief update

on Treasury's use of private collection agencies for debt collection. Treasury successfully implemented a new contract that went into effect October 1. Since that time, 44,879 debts for an associated dollar amount of nearly \$831 million have been distributed to the five agencies under contract.

Debt Collection Program – USDA Participation

Mr. Chairman, as you know, critical to the success of the debt collection program is the referral of delinquent debts by agencies to Treasury for collection. Moreover, referring the debts in a timely manner is equally important and can make the difference between collecting and not collecting.

With respect to referrals of debts to the Treasury Offset Program, USDA has consistently complied with the DCIA requirement that debts more than 180 days delinquent be referred for collection. Specifically, I would like to single out and commend USDA's Food and Nutrition Service, with which Treasury has a long-standing and close working relationship. The agency is exemplary in its referral of food assistance program debts owed to the agency and serves as a model for other program agencies. On another front, USDA is the first major payroll payment processing organization, of which there are five, to participate in the centralized federal salary offset program. As I stated at the October hearing, this debt collection program is a fully automated system designed to centralize the offset of federal salary payments to collect non-tax debts, and delinquent child support debts. Ultimately, the system will be used to levy federal salary payments to collect tax debts. USDA's National Finance Center participated in the program pilot, was closely involved in system planning and development, and has established itself as a leader in program implementation.

In contrast, USDA's participation in Treasury's cross-servicing program has lagged behind other agencies. Based on data supplied by USDA, as of September 30, 22 percent of USDA's delinquent debts that are eligible for collection have been referred to Treasury. The governmentwide average for cross-servicing referrals is 73 percent. Participation by two USDA agencies in particular, the Farm Service Agency (FSA), and the Rural Housing Service (RHS) is marginal at best.

While USDA has provided several reasons for this low rate of referrals, I believe that any barriers to participation can be overcome providing it is a USDA priority. Currently, FMS is in discussions with USDA to establish ambitious cross-servicing referral goals for Fiscal Year 2002, for both RDA and FSA. FMS will assist USDA in developing individual DCIA implementation plans, and will closely monitor USDA's debt performance indicators, devoting special attention to identifying all debts eligible for referral.

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Mr. Chairman, I will conclude my remarks by stating that Treasury stands ready to work with USDA to overcome the barriers to program participation. Working together, we can improve our debt collection performance. I would be happy to answer any questions you or the members of the subcommittee might have.

Mr. HORN. Thank you very much.

Since you came out of South Dakota, I wondered, do you have a farm in your background?

Mr. GREGG. Yes, more ranching than farming where I grew up but I certainly understand the situation with the loans and the repayments, and I have seen many farms sold.

Mr. HORN. I am going to yield for 10 minutes to the ranking member, Ms. Schakowsky because she has another subcommittee going on and also she would like to read her statement into the record.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I apologize to these witnesses today. There is a subcommittee hearing of the same committee going on and another in another room that I have to be at as well. I would like to orally make my comments to the record.

I want to thank all of you who took time out of your busy schedules to appear before our committee today.

Today, we are focusing on debt collection in the Department of Agriculture. I would like to reiterate the cautions that I raised at the last hearing. The Debt Collection Improvement Act was passed in the middle of an expanding economy at a time when debt collection was somewhat easier. It is unfortunate that the agencies have not moved more quickly to implement the provisions of that act. Those provisions will be less effective in the coming months I fear. As the economy slumps, the effect ripples through the government. Tax revenue goes down because businesses and individuals are earning less; debt goes up as individuals struggle to make ends meet. Those of you who are testifying before the subcommittee, I am sure, realize that your job will become increasingly difficult as a result.

When the President was promoting his \$2 trillion tax cut, there were many of us who criticized that effort, saying the tax cuts would leave us without the resources necessary to respond to emergencies. Now we have had an emergency and the spending in response to that emergency coupled with the recession threatens to compromise funding for important domestic priorities like housing, healthcare, school modernization and prescription drug coverage for seniors. Our commitment to these domestic programs will be tested in the difficult budgetary times that lie ahead. There are calls for increased defense spending both in the United States and abroad; the President has created a new Cabinet level office for Homeland Security that must be funded; and the President is calling for new tax cuts which I believe do little to stimulate the economy.

I fully support increased spending for domestic security. However, we can pay for those increases without sacrificing our critical national priorities. My bill, H.R. 2999, the First Things First Act, is a blueprint for doing just that. The work your agencies do in collecting the debt will make some of these tradeoffs unnecessary.

In closing, I would make one comment on the priorities shown in the reports of the Department of Defense. Though it is not the focus of this hearing today, DOD has moved quickly to collect debt from the men and women who have retired from the Armed Forces or worked in a civilian capacity; 100 percent of the delinquent debt

from those individuals has been referred for collection. I find it shameful that the Department has at the same time moved slowly to collect delinquent debt from contractors, referral contractor debt will not begin until the end of this month.

Again, Mr. Chairman, I thank you for calling this hearing. I look forward to working with you on this issue and again, I apologize for having to bop in and out. I appreciate your testimony.

Thank you.

[The prepared statement of Ms. Schakowsky follows:]

**STATEMENT OF THE HONORABLE JAN SCHAKOWSKY
FOR THE GOVERNMENT EFFICIENCY HEARING ON DEBT COLLECTION**

December 5, 2001

Thank you Mr. Chairman, and my thanks to each of the witnesses who took time out of their busy schedules to appear before the committee today. Today we will focus on debt collection at the Department of Agriculture.

I would like to reiterate the cautions I raised at the last hearing. The debt collection improvement Act was passed in the middle of an expanding economy; a time when debt collection is somewhat easier. It is unfortunate that the agencies have not moved more quickly to implement the provisions of that act. Those provisions will be less effective in the coming months.

As the economy slumps, the effect ripples through the government. Tax revenue goes down because businesses and individuals are earning less. Debt goes up as individuals struggle to make ends meet. Those of you who are about to testify before this Subcommittee, I am sure, realize that your job will become increasingly difficult as a result.

When the President was pushing his \$2 trillion tax cut, there were many of us who criticized that effort saying that the tax cuts would leave us without the resources necessary to respond to emergencies. Now we have had an emergency, and the spending in response to that emergency coupled with the recession threatens to compromise funding for important domestic priorities like housing, health care, school modernization, and prescription drug coverage for seniors. Our commitment to these domestic programs will be tested in the difficult budgetary times that lie ahead.

There are calls for increased defense spending both in the United States and abroad. The President has created a new cabinet level office for homeland security that must be funded, and the President is calling for new tax cuts which will do little to stimulate the economy. I fully support increased spending for domestic security. However, we can pay for those increases without sacrificing our critical national priorities. My bill, H.R. 2999, the First Things First Act, is a blueprint for doing just that. The work your agencies do in collecting the debt will make some of these trade-offs unnecessary.

In closing, I would make one comment on the priorities shown in the report from the Department of Defense. The DOD has moved quickly to collect debt from the men and women who have retired from the armed forces or worked in a civilian capacity. 100% of the delinquent debt from those individuals has been referred for collection. I find it shameful that the Department has at the same time moved slowly to collect delinquent debt from contractors. Referral of contractor debt will not begin until the end of this month.

Again, Mr. Chairman, thank you for calling this hearing, and I look forward to working with you on this issue.

Mr. HORN. Thank you.

We will now go to the questioning. We will begin with Secretary Moseley.

The General Accounting Office testified that the Agriculture Department had not really demonstrated a sense of urgency. I realize you are new to the administration and you said to us that basically, you want to turn that around. When it comes to implementing the Debt Collection Improvement Act, what are you doing to supply a sense of urgency to the Department and its component over the need to comply with the Act? Just summarize that.

Mr. MOSELEY. Mr. Chairman, first of all, as you indicated, we just arrived on the scene and are just finding out about the responsibilities was enlightening to me. Within the Department, we have made a major commitment to improving management. I come to the Department with a business background. Our CFO, Ted McPherson, who is with me today, comes to the Department with a business background. We have a deep understanding of the need for the Department of Agriculture to operate as a business. That requires improved management practices which we are going to undertake.

As a matter of principle, I am also on the President's Management Council at the deputy level and I can share with you conclusively that every meeting we have of that council, and I have one this afternoon, we talk about management across government and there is a strong commitment from this administration to improve that management.

That takes us to some of the issues of management within the Department and they are diverse and broad. One of those that became apparent to me as a result of your questioning and preparation for the hearing was the Debt Collection Act and what we were doing in that regard. So practically everyone here with me today has sat in a room twice now and discussed this issue. Mr. McPherson and I have gotten together and both agreed to being committed to making sure that we do this and do it correctly.

There are some recommendations that he is going to bring forward that I think are going to have a significant improvement. Quite frankly, my comment to him was I don't know what all those recommendations really mean but in my position, I just want it fixed. He said, we will get it fixed.

Mr. HORN. Well, that is good but do you have a particular compliance date when you think most of these things will be done?

Mr. MOSELEY. I believe we will be able to accomplish most of this in 2002. That comes from discussions with the people that are currently working in this area, sitting around the table and reviewing it. We have made substantial progress. I would make a note that the GAO report is as of September 2000; this is December 2001 and there has been significant progress made. Those actions that have been undertaken will be and are being implemented as we speak. We will see the benefit of that in 2002. I expect a significant improvement during next year.

Mr. HORN. I have been impressed with the President's commitment to management. That hasn't been done in most departments over the last 30 years. He is serious. The Director of OMB goes to the Deputy Secretaries to make sure that happens. That is why

those of you with backgrounds in management are in those positions. So you think, what, January 2002 basically, the Department will know on these various components and their compliance with the Debt Collection Improvement Act?

Mr. MOSELEY. If you are going to make me make a promise of a specific time, I am going to hedge just a little bit and move that back to say January 2002, that worries me, but during 2002, we can get this done. It will be a process. This is not something that we will just walk in and say, as of today we have everything accomplished. It will be step by step but I can commit that we will follow this step by step so that at the end of 2002, you will see a much different situation than what you do today.

Mr. HORN. You are talking about the fiscal year or the calendar year?

Mr. MOSELEY. Calendar year.

Mr. HORN. Calendar year. So you are saying that December 31, 2002?

Mr. MOSELEY. Yes.

Mr. HORN. What specific Results Act performance goals and measures have the Rural Housing Service and the Farm Service Agency established to improve their debt collection performance? Has that occurred?

Mr. MOSELEY. I have been told that there are goals that are registered in the agency's strategic plans and that those goals are an intent to comply with the Debt Collection Improvement Act. I also understand that the agency managers have performance goals in their performance evaluation. I believe those steps have been taken but in our discussions of this, and as we look ahead at some of the changes we are going to make, there will be very specific job descriptions related to overseeing this particular activity. At that point in time, then I know we will have those things well stated and that there will be numeric goals that will be established that will we will move on.

Mr. HORN. I looked yesterday at some very interesting charts with OMB and I assume that from their standpoint it won't just be budget review, it will be management review. They assure me that there is a very real commitment to that particular approach and it will be a part of the President's budget as it goes in. That normally is done in late January-February and obviously with the May renewal, that is another chance to get on top of this situation. The budget people will have to also get with management people because we are serious here and they are serious in the White House, thank heavens.

According to the General Accounting Office, neither the Rural Housing Service, nor the Farm Service Agency, has automated systems with sufficient data to distinguish those debts that are eligible for referral to Treasury from those that are not. What are you doing to fix this basic problem and when will that be completely fixed?

Mr. MOSELEY. I am going to turn to my two counterparts here to help me on this but my understanding is that FSA doesn't have that capability now and Rural Housing indicates they will have that capability in April as some new IT technology comes online.

Mr. HORN. This is April 2002?

Mr. MOSELEY. 2002.

Ms. BURGESS. The Rural Housing Service is currently working to enhance their dedicated loan origination system to be able to identify debts after they have completed all the required borrower servicing that can be referred to Treasury taking into account various State laws that do offer homeowners certain rights like redemption rights, being able to come back and get their home a year after foreclosure if they can share the debt.

In addition, they need to automate their system so that the caller feature, we have automatic call dialing, that we will no longer be contacting those borrowers after they are referred to Treasury, so once again we can comply with the law. Those changes will be implemented in April 2002 and at that time, all debt qualifying for cross-servicing at that point on and forward will be automatically referred.

Mr. HORN. So you feel confident then?

Ms. BURGESS. Yes.

Mr. HORN. Most of the Department's delinquent data is excluded from referral to the Treasury under the Debt Collection Improvement Act and the exclusions amounted to \$4.6 billion out of a total of \$6.2 billion for fiscal year 2001. However, the General Accounting Office has raised a number of questions about the accuracy of your exclusions. What are you doing to ensure that exclusion determinations are correct and up-to-date?

Mr. MOSELEY. Let me take a crack at that and then I may need some help on this one. First of all, I would say the majority, which is \$3.5 billion of the excluded debt, is foreign and it is my understanding that is off the table or it happens to be debt that is collected via statutorily required mechanisms. In other words, it is in some state of liquidation. If there is not proper documentation of that debt by the agency at the time of an audit, that is a problem that must be addressed. I would understand that is difficult, tracking this by the paper trail. However, I would think the newer, computerized tracking systems would allow that.

Mr. OSE [assuming Chair]. Deputy Secretary Moseley, if I might follow-up on Chairman Horn's question, as I understand your letter to us, the Department does not plan to conduct a systematic, independent verification of its exclusions per the recommendation of the General Accounting Office. What is the rationale behind that decision?

Mr. MOSELEY. We are looking at an independent verification. Obviously the agency cannot do that themselves and what we are doing is looking at OIG as a possible resource to do that. In fact, I have a letter here indicating OIG has been notified. One of the real problems I have as Deputy Secretary, and particularly in this time of homeland security issues, is that our OIG is absolutely overwhelmed in terms of the workload they have. So it is going to be very difficult, quite frankly, for them to get to these kinds of issues in a timely fashion. I talked with Mr. McPherson on this issue and we would certainly consider the option of going outside

to some kind of private sector entity that could provide that verification.

Mr. OSE. Would you like to enter that letter into the record?

Mr. MOSELEY. Yes.

[The information referred to follows:]



United States
Department of
Agriculture

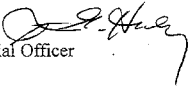
Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

NOV - 2 2001

TO: Joyce Fleischman
Acting Inspector General

FROM: Patricia E. Healy 
Deputy Chief Financial Officer

SUBJECT: Verification of Debts Excluded from Treasury Collection

This letter requests that, during your field reviews of the Department of Agriculture's (USDA) agencies, you verify past-due debts that have been specifically excluded from referral to Treasury.

The reason for this request is recent audit work by the General Accounting Office (GAO). During a review of our debt collection practices as they pertain to the Debt Collection Improvement Act of 1996, Public Law No. 104-134, GAO sampled four states and found that about half of the debts excluded from collection by the Farm Service Agency (FSA) were categorized erroneously. FSA's review of this finding revealed that the actual rate was lower. However, FSA has agreed to monitor this area more closely.

Based on their findings, GAO recommended that our agencies obtain independent verification of the accuracy of their exclusions from the Treasury Offset Program. Including this item in your agency review process will satisfy the GAO and Congressional recommendation for agencies to obtain independent verification of the accuracy of their exclusions.

If you have any questions or would like to discuss this request, please contact Joe Marshall, Associate Chief Financial Officer for Policy and Planning on (202) 720-8345.

Mr. OSE. The FSA has delinquent loans on which the documents list co-debtors and it seems to us that FSA loses the opportunity to collect on those loans because it does not refer the names of those co-debtors to Treasury. That is largely a reflection of the data systems having not been programmed to accept taxpayer ID number for more than one debtor on each loan. We have been aware of the problem since 1986 but it is not scheduled to be fixed until 2005. Is that correct?

Mr. MOSELEY. I frankly had the same question in this regard. What I found out was, first of all, I think this was a mistake made at the beginning of the particular program where there wasn't a recognition by FSA that the co-signature on those particular loans had the level of liability for that loan they should have had, so there weren't provisions made. While they were co-signatures, they didn't have all the information or data available in order to really pursue the cosigner of the note. That was an error that has been recognized. My understanding, and I will ask for verification on this, is the target date is not any longer 2005 but December 2002.

Mr. OSE. So a year from now?

Mr. MOSELEY. Yes. I thought this has to be fairly simple and yet I found out that as we know, nothing in government is simple and all of a sudden we recognize as we upgrade our IT systems, we are making the necessary changes for us to be able to accomplish this. Clearly, I think it was an oversight early on. It is being fixed.

Mr. OSE. I can tell you, having been a borrower with other partners on the line, the lender doesn't have any compunction about calling the subsequent names, so we shouldn't either.

Mr. MOSELEY. I have been one of those cosigners myself and I do understand the circumstances. I have been called as well.

Mr. OSE. The lesson in all that is to have 50 percent plus 1.

I think we are going to recess so we can vote. We have 8 minutes and a vote, then we have two 5 minute votes. We will recess until that time at which point Chairman Horn will be back, if you will be patient with us.

[Recess.]

Mr. HORN. The recess is over.

Commissioner Gregg, I am going to make sure you are out of here. You have another commitment. Let me ask you a few things.

What specific suggestions can you offer the Department of Agriculture on how to make better use of the Debt Collection Improvement Act?

Mr. GREGG. I think one thing I mentioned several times is to make sure the documentation for the debts is accurate and referred to us as quickly as possible, especially in the cross-servicing area. Also, I think all of us have struggled with the systems issues. In some cases, I think they are short-term solutions, may not be the ideal solution but look at some things that could be done in the shorter period of time. I was really encouraged by the reference earlier to moving along quickly the idea of when you have two debtors being able to do something perhaps by the end of next year, things like that, taking a fresh look at issues and working out maybe short-term solutions even though you know it is not the ideal.

Mr. HORN. Was Secretary O'Neil familiar with this particular law and is he going to have a letter for his colleagues?

Mr. GREGG. He is very familiar with the law. I briefed him on it several months ago and we talked about the progress being made and also the challenges. If you think it was helpful, we could go back and suggest a letter going to other department heads to reemphasize the importance.

Mr. HORN. I think Secretary Rubin did that, didn't he?

Mr. GREGG. Yes, he did.

Mr. HORN. I am sure the Secretary would be glad to do this. Do you see any conflicts between the agriculture program statutes and the Debt Collection Improvement Act requirements, and if so, what conflicts do you see that needs to be resolved?

Mr. GREGG. One of the requirements in the DCIA is to refer debts that are delinquent within 180 days after they become delinquent. I think in some cases, as mentioned earlier, some of the servicing requirements for the loans may well take longer to go through that entire process. The only thing I would say, without trying to be an expert in the loan portfolios of Agriculture, is as quickly as possible, to go through those processes to get the debts referred to us.

Mr. HORN. Thank you. I will move to Mr. Engel now on behalf of the General Accounting Office.

You have identified major deficiencies in the Agriculture Department's compliance with the Debt Collection Improvement Act. In your judgment, what key steps should be taken by the Department to correct those deficiencies?

Mr. ENGEL. I would say one of the key steps is to have top level management's commitment and to share that throughout the entity. I was encouraged by the remarks that we have heard today from Agriculture because it seems we have that type of commitment in place now. In addition, as we have talked about, some of these areas that need to be corrected do involve system enhancements which many times are more longer term type fixes. In the interim, we think there is going to need to be some corrective action taken which may actually involve manual procedures. Based upon some of the dates that we were hearing today, likely some of those manual procedures will have to take place while the system enhancements are being finalized.

I think also from an accountability standpoint, we talked a bit earlier about performance measures. I think that is important in a situation like this to hold individuals at the senior management level accountable for meeting particular performance measures and goals, and enforcing that.

The last thing I would probably say to reiterate Mr. Gregg's comment is that it is encouraging to hear that the Inspector General's Office, or if it ends up having to be a public accounting firm, will come in and look at the propriety of the exclusions. That is something we actually recommended and worked with FMS about 1½ years ago to try to have done at a lot of the large agencies because we do have the concern that there are significant amounts of debt being reported as excluded but there is no independent verification being done on those. So we are encouraged by the efforts of Agri-

culture to take that on and would be interested to see the results of those.

Mr. HORN. I take it Mr. Secretary that you will be able to deal with the Rural Housing Service and the Farm Service Agency because apparently they haven't really seen and put it as their priority for debt collection. What is your feeling on that? How do you feel about Mr. Gregg's organization as well as the GAO?

Mr. MOSELEY. I think there is a spirit of cooperation here and I guess that maybe is a significant point that needs to be made. It is obvious to me coming in that there have been some difficulties in the past. There have been some challenges, some disputes, disagreements which I think have been taken care of, have been resolved. We are really interested in moving from this point forward. We are making the commitment to look at these issues and try and resolve them. Quite frankly, I was fairly satisfied with the responses I got from the agencies in terms of the things they recognized as problems and the way in which they were addressing those problems and trying to bring them to the table and put some finality, so my expectation is with the help of Treasury and the continued commitment to communicate if there are difficulties as they arise, we will be able to accomplish what I know needs to be done.

Mr. HORN. Do you have opportunities to talk to the Secretary? Has she been briefed about this act?

Mr. MOSELEY. The Secretary is well aware of the fact that I had this hearing; she is aware of the responsibilities. The Secretary was also Deputy Secretary a few years ago, so she had some recognition of the debt collection difficulties of the Department because they go back a number of years even before the act was passed. So yes, the Secretary is aware of the responsibilities that we have here.

Mr. HORN. Mr. Engel, you mentioned you reviewed the Deputy Secretary's October 31 letter to the subcommittee responding to our questions. Are you satisfied from his responses that the Department is on top of its debt collection problems? Could you provide for the record your analysis of his specific responses to the extent that they will relate to areas the General Accounting Office has reviewed?

Mr. ENGEL. Yes, we did look at that letter. I would say in general most of the points made in the letter were consistent with our testimony. In some areas where it maybe was not as clear as far as the actions that were going to be taken to meet some of the dates, I think today we are hearing a little more about when some of these dates are that the corrective actions will be taking place.

As related to a more detailed analysis, if you like, we could do that. I would point out that we are in the process of preparing reports on our work and there will be a separate report that will go to FSA and one to RHS, on which the agency will have an opportunity to comment. That may be one avenue for us to be able to get our views back and forth. That will be a public document that will be shared with you.

Mr. HORN. We will leave an opening at this point in the hearing and have the letter of the Deputy Secretary and your answers to that.

Are you going to say where it is not fully compliant and in other parts, is compliant just so we know what GAO thinks of it?

Mr. ENGEL. OK.

Mr. HORN. Most of the Agriculture Department's delinquent debt is not subject to referral to Treasury under the Debt Collection Improvement Act. What would the Department do to improve its own collection efforts for those debts that never reach the Treasury?

Mr. ENGEL. Some of the debts that are excluded are for various reasons. I think we mentioned foreign debts. I think the things that should be focused on would be those type of debts that do not fit into an exclusion category under the DCIA and to establish as soon as possible what the validity of those debts are, and then look at past experiences as to collection tools which ones they have had the most success with, look for opportunities where things such as administrative wage garnishment which we believe is potentially a very powerful tool, as well as referring over debts if allowable to the offset program which has also been a very successful program.

The act calls for eligible debts to be referred over after 180 days. However, it does not exclude debts to be referred sooner than that. In some cases, I think agencies should take a look at their in-house operations and if they believe the referral at an earlier date would make the most sense, to go ahead and do that.

Mr. HORN. Any response on your part, Mr. Gregg, on all of that?

Mr. GREGG. We do have some agencies, Food and Nutrition from Agriculture actually refers debts to us sooner than that. I think the point on taking advantage of the offset program is a good one. Sometimes the perception is that only happens in March and April. As we showed this past year with the tax rebate payments, we had language included in that to do offsets. We collected \$470 million in delinquent debt as a result of the tax rebate program. It is a year round viable program now and we certainly encourage agencies to take advantage of it and more of them are doing so.

Mr. HORN. Is there a need to have some other bits of language on there to make it broader if we are leaving out various agencies?

Mr. GREGG. I don't think so. I keep worrying about DCIA expanding. We have a lot of flexibility to do what we need to do under the current legislation. There are a few things that we may be proposing to expand, but they are fairly limited. I think one of the areas we feel we could maybe expand a bit would be expanding what debts might be eligible for collection for child support. We have collected a lot of money over the years in delinquent child support debt. There is a category or two we think it might make sense to expand the DCIA to include that but they are pretty limited and specific things. I think generally it is broad enough for us to cover what we need to cover.

Mr. HORN. When we first had that signed by the President, the Commissioner of Revenue in Massachusetts called me the morning that happened and said, you have just made my day. This was in relationship to the individuals that had run from one State to the other not paying their alimony. Is there much usage of that?

Mr. GREGG. In the last 2 years, we have collected \$1.3 billion each year in delinquent child support payments. Actually, it was greater than that this past year because of the tax rebate. I forget exactly how much that was, probably a couple hundred million ad-

ditional from the tax rebate. Our working relationship with HHS is a very good one. I think the people who work in the debt area in FMS are committed to collecting all the debt but when you see them going back for that program, I think it is a special point of pride.

With your permission, Mr. Chairman, I have to leave. I appreciate your willingness to allow me.

Mr. HORN. Thank you for staying. Just remember I did say you were released a half hour ago. Thank you and thank your staff for the good work they do.

I want to thank all of the witnesses here today. It appears the Department still has a long way to go to bring debt collection performance up to par but I have every hope that under the Deputy Secretary's leadership and the administration's commitment toward improving financial management practices in the executive branch, we will see in the next few months a great improvement and in the ensuing year.

We thank you very much for coming. I would like to read into the record for both the majority and the minority the members that put together this particular hearing: J. Russell George, the staff director, chief counsel, who is out busy; Henry Wray on my left, senior counsel; Bonnie Heald, deputy staff director and director of communications against the wall there; Mark Johnson, clerk, who has a tough job because he has to make sure all transcripts are right and everything else—and we didn't put these microphones in but we are sort of in the early part of the 20th century with the system; Jim Holmes, intern; David McMillan, professional staff member for the Democrats and Jean Gosa, minority clerk and our court reporters, always a tough job to do with the microphones and all the rest. Arthur Emmerson, we thank you.

We are now in adjournment.

[Whereupon, at 11:41 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

